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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER JANUARY 16,  
2009 ISSUE

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1. (U) Summary. This is Volume 9, issue 3 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- South African Economy to "Feel Pressure"
- Manufacturing Output, Business Confidence Dive
- South Africa's House Prices Fall
- Stadiums on Track for World Cup, But Economic Downturn - Could Reduce Regional Impact of Games
- Nuclear a Distant Solution for South Africa
- South Africans Concerned About Climate Change

End Summary.

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South African Economy to "Feel Pressure"  
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2. (U) Investment Solutions Economist Chris Hart said forecasts for South Africa's economic growth have been cut back, with 1% GDP growth expected for 2009, although the pace will pick up towards the end of the year. "The first half of the year will be characterized by recessionary conditions," he said, "while the second half will be a recovery phase where we will see economic growth." Hart's forecast correlates with that of Barclays Capital. Barclays Capital reported in a research note that depressed business and consumer confidence levels, political and policy uncertainty, continued risk aversion, and a bleak outlook for the global economy in the first half of the year are likely to weigh on South Africa's growth performance for most of the year. (Fin24, January 15, 2009)

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Manufacturing Output, Business Confidence Dive  
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3. (U) Manufacturing output dived 4.4% in November, adding to evidence that the South African economy's second-biggest sector is in recession. The drop in output was the biggest annual fall in more than nine years. Manufacturing activity edged higher in December, but remained near a record low. The Investec Purchasing Manager's Index (PMI) was 39.5 in November, and rose to 40.1 in December. "Purchasing managers' expectations ... recovered somewhat

after the sharp downward adjustment and record low in November, but on the whole, they remain negative and the outlook for the manufacturing sector continues to be uncertain," explained Investec Asset Management Portfolio Manager Mokgatla Madisha. The manufacturing sector also shed 19,000 jobs in the third quarter, and continues to be pummeled by falling domestic demand and the deepening global recession, which has eroded demand for exports. JPMorgan Economist Kgotso Radira commented, "With most of South Africa's trade partners in recession, we expect business conditions in the sector to deteriorate further in the first half of 2009."

The South African Chamber of Commerce and Industry's (SACCI) Business Confidence Index slipped from 86.7 basis points in November to 83.8 basis points in December, its lowest level since June 2003. SACCI attributed the fall in confidence to weaker domestic and global economic conditions. SAACI's report speculated that confidence is likely to remain subdued until international economic conditions improved and the local economy showed signs of recovery. South African consumer spending has cooled sharply in response to a 500-basis-point hike in interest rates between June 2006 and June 2008. The South African Reserve Bank began unwinding the rate increases with a 50-basis-point cut in December. SAACI predicted that lower household spending and slower economic growth, a large current account deficit and the need for inflows to finance it, and falling commodity prices would continue to weigh on sentiment in 2009. South Africa's current account deficit stood at 7.9% of gross domestic product in the third quarter of 2008, and fewer portfolio inflows due to global market turmoil has left it more difficult to finance. (Engineering News, January 15, 2009; Business Day, January 9, 2009; and Fin24, January 13, 2009)

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South Africa's House Prices Fall  
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14. (U) The Absa house price index showed house prices increased by only 4% in 2008, the lowest growth rate since 1996. ABSA expects the 2009 outlook for residential property to "remain bleak, with the market bottoming at mid-year followed by a gradual improvement. However, some estate agents believe there will be further severe falls in house prices and private property developments might be curtailed. This is good news for house buyers and property investors, but the number of homes repossessed by banks will also increase. Some property analysts expect the number of homes to be repossessed this year to triple to around 150,000. These "distressed" sales often are negotiated at up to 40% below the real value of a house. Institute of Estate Agents of South Africa Chief Executive Ben Pillay speculated that even if interest rates fall again in February, it could take up to nine months for this to filter through to the residential property market. He added that house prices were "so badly overvalued that they would have to come down dramatically." (Business Times, January 10, 2009)

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Stadiums on Track for World Cup,  
But Economic Downturn -Could Reduce  
Regional Impact of Games  
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15. (U) South Africa's Local Organizing Committee (LOC) for the 2010 FIFA World Cup expressed confidence that preparations were continuing to progress well and that the economic downturn would not affect foreigners' decision to attend the tournament. FIFA World Cup Organizing Committee Communications Officer Rich Mkhondo announced that construction on all ten stadiums would be completed before the end of 2009. He also downplayed suggestions that the economic downturn could have a major impact on the number of visitors coming to South Africa for the World Cup. Mkhondo remarked, "The FIFA World Cup is a once-in-a-lifetime event ... with the fanaticism of football fans around the world, we do not expect a major drop in visitor numbers." Efficient Group Analyst Fanie Joubert agreed that neither the economic turmoil nor the events in Zimbabwe would prevent tourists from attending the World Cup. He

predicted that tourists likely would not visit all the attractions they formerly would have, either because they would not be able to afford to, or because of the fear of health threats such as cholera coming from Zimbabwe into South Africa. The LOC also expressed assurances that the four stadiums to be used in the June 2009 FIFA Confederations Cup would be ready on time. The Confederations Cup would be a test of South Africa's readiness to host the World Cup. All the major refurbishments to the Ellis Park Stadium in Johannesburg, the Loftus Versfeld stadium in Pretoria, the Free State stadium in Bloemfontein, and the Royal Bafokeng stadium in Rustenburg have been completed. These four stadiums would also be used in the World Cup. A further five stadiums under construction and to be used in the 2010 games would be completed by the end of October. The 68,000-seater Cape Town Green Point stadium is expected to be handed over to FIFA in December. (Engineering News, January 12, 2009)  
QJanuary 12, 2009)

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Nuclear a Distant Solution for South Africa  
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¶6. (U) South Africa expects its next nuclear power plant to come on stream by 2019, two years later than initially planned by utility Eskom, which has dropped plans to build the facility due to financial woes. Eskom was hoping nuclear energy would supply one quarter or 20,000 megawatts (MW) of South Africa's expanded generating capacity by 2025. The government now says a target of 6,000 MW in the same period is more feasible. South Africa will have to keep reverting to more coal to supply its growing demand in the meantime. "We appreciate what Eskom had as a plan, but we need to be practical and see what can be done in that time -- 6,000 MW seems much more feasible," commented Department of Minerals and Energy Deputy Director General Nelisiwe Magubane. Eskom operates Africa's sole nuclear power plant, Koeberg, with a total capacity of 1,800 megawatts. Magubane said an additional 3,200 MW of the planned 6,000 MW is due in 2019. The government, which took over after Eskom bowed out, said the two-year delay was needed to properly initiate the process. The government would revise its nuclear plans taking into account the economic slowdown, but the decision to expand South Africa's nuclear supply was not based on

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choice, Magubane asserted. "In the next 20 years we need to decommission quite a number of coal fired power plants, so we need to have a plan on what it would be that would replace that ageing fleet," she cautioned. The cost, coupled with the long lead time of some 7-10 years to build a new nuclear plant, means the country will have to pump up its coal production in the meantime, even though that will undercut its ambition to reduce the country's carbon footprint. The 6,000 MW nuclear capacity target is still a substantial target, with an estimated cost of \$35 billion. (Engineering News, January 12, 2009)

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South Africans Concerned About Climate Change  
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¶7. (U) Accenture reported that 95% of South African respondents to a survey on climate change said that they were concerned about climate change, and 97% felt that it would have a direct impact upon their lives. The survey canvassed some 11,000 people worldwide, and found that people in emerging markets expressed greater optimism in the ability to combat climate change. Seventy percent of emerging market consumers were optimistic about their ability to combat climate change, compared with only 48% in developed markets. (Engineering News, January 15, 2009)

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